

## Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SVC-00 CIAE-00 DODE-00 PM-05

H-01 INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02

SS-15 ICA-11 EB-08 COME-00 TRSE-00 OMB-01 AID-05

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC PRIORITY 3219

AMEMBASSY MOSCQL

INFO AMEMBASSY TAIPEI

AMEMBASSY TOKYO

USLO PEKING

AMCONSUL LENINGRAD

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY SINGAPORE

C O N F I D E N T I A L HONG KONG 12334

E.O. 11652: GDS

TAGS: ETRD, CH, HK, TW

SUBJECT: PEKING URGES HONG KONG'S LEFTWING BUSINESSMEN TO  
TRADE WITH TAIWAN

REF: A) MOSCOW 21035 B) HONG KONG 0958

1. HONG KONG'S MING PAO AND ENGLISH-LANGUAGE SOUTH CHINA  
MORNING POSTVN SEPTEMBER 5-6 FRONT-PAGED ARTICLES REPORT-  
ING AN AUGUST 31 MEETING BETWEEN CHI FENG, DEPUTY DIRECTOR  
OF THE HONG KONG BRANCH OF THE NEW CHINA NEWS AGENCY, AND  
"LOCAL LEFTWING BUSINESSMEN," AT WHICH CHI GAVE THE GO-AHEAD  
TO SELL MAINLAND-PORDUCED GOODS TO TAIWAN. ACCORDING TO  
THESE AKCOUNTS, THE ACCURACY OF WHICH WAS BROADLY CONFIMED  
TO A WESTERN JOURNALIST BY A PRC SOURCE HERE, CHI TOLD THE  
300 BUSINESSMEN ATTENDING THE MEETING THAT PEKING

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NOW BELIEVES PRC-TAIWAN TRADE IS ONE IMPORTANT WAY TO IMPROVE  
RELATIONS BETWEEN THE TWO PARTS OF CHINA AND TO HASTEN  
REUNIFICATION. CHI URGED EFFORTS TO BRING THIS ABOUT,  
AND THE BUSINESSMEN INTERPRETED THIS AS A REASSURANCE  
THEY WOULD NOT LOSE THEIR AGENCIES FOR CHINESE PRODUCTS  
IF THEY SOLD DIRECTLY TO TAIWAN.

2. IN RECENT YEARS PRC-TAIWAN TRADE HAS BEEN INCREASING.

IN THE FIRST SIX MONTHS OF THIS YEAR, ABOUT US\$2.2 MILLION WORTH OF PRC PRODUCTS WERE REEXPORTED THROUGH HONG KONG TO TAIWAN, COMPARED TO \$2.8 MILLION FOR ALL OF 1977. ALSO IN THE FIRST HALF, THE PRC IMPORTED \$32,000 WORTH OF GOODS FROM TAIWAN VIA HONG KONG. ACTUAL TOTAL TWO-WAY TRADE BETWEEN THE PRC AND TAIWAN IS LARGER, DUE TO SMUGGLING AND RELABELLING (REF B).

3. WHILE TAIWAN SEEKS TO IMPORTATION OF MAIN- (#) LAND PRODUCTS PEKING UNDER ITS CURRENT UNITED FRONT POLICY PROBABLY WOULD LIKE TO SEE THE FLOW VIA HONG KONG INCREASE. THIS IS THE FIRST TIME TO OUR KNOWLEDGE, HOWEVER, THAT THE PRC'S COMMERCIAL AGENTS HAVE EXPLICITLY BEEN GIVEN THE WORD TO PUSH EXPORTS TO TAIWAN. THOUGH CHI PENG'S REMARKS WERE MADE AT A "PRIVATE" MEETING, THERE IS LITTLE DOUBT THAT PEKING WANTED THIS GUIDANCE TO BECOME PUBLIC, AND IN PARTICULAR TO REACH TAIWAN AND FOREIGN AUDIENCES.

SHOESMITH

NOTE BY OC/T: PARAGRAPH 3, FIRST LINE. OMISSION. CORRECTION TO FOLLOW.

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